

# Budget Issues Summary

## Fiscal Year 2005

The Legislature made its final adjustments to the current fiscal year based on a 7.8 percent revenue increase. Through March, revenues exceeded that estimate by about \$25 million, which is the most encouraging revenue situation in several years. Overall, the General Fund budget for FY 2005, after major mid-year adjustments for supplemental appropriations for Medicaid and Corrections, totaled \$2,114,439,100 which is a 6.2 percent increase over the previous year appropriation. The key overriding factor in the Legislature's approach to the budget was to maximize the ending balance to carry over into FY 2006 to help off-set the impacts of the sunset of the temporary one cent sales tax increase authorized in the 2003 session. Even after transferring \$21.8 million in general funds for the water settlement, and approving over \$25.0 million in supplementals, the Legislature was still able to approve a spending plan that will leave an estimated year-end balance of just over \$100 million. If, however, the year-end balance hits \$124 million, then a temporary merit-based salary increase funded at one percent is triggered for state and public school employees for FY 2006.

## Fiscal Year 2006

The FY 2006 General Fund budget is based on a revenue estimate of 5.1 percent, which is the estimate of the Governor's Division of Financial Management and the recommendation of the Economic Outlook and Revenue Assessment Committee. The temporary one cent sales tax increase expires June 30, 2005, so that revenue was not included in the budget plan for FY 2006. The cigarette tax increase slated to sunset was made permanent, although the additional moneys do not accrue to the General Fund. Next year the Legislature may have to transfer those cigarette tax revenues from the Economic Recovery Reserve Fund to the General Fund in order to balance the General Fund budget and cover the costs of water agreements.

The spending blueprint approved by the Legislature for FY 2006 reflects a 4.7 percent increase over the original FY 2005 appropriation, and a 3.1 percent increase over the final FY 2005 appropriation. The final appropriation incorporated carryover, supplementals, and a one-time one percent change in employee compensation. Included in this very lean "maintenance level" budget plan are increases for state employee health insurance costs, statutory increases for Medicaid and public schools, an enrollment workload adjustment for higher education, and direct costs of keeping pace with inmate growth in corrections. The basic philosophy of the budget approach was to cover only those costs associated with our current statutory program responsibilities and not to expand state services or programs. The outlook for FY 2007, in light of the current \$110 million structural deficit, is still very much in doubt, so a very cautious and conservative spending plan prevailed.

These key revenue and spending issues, as well as highlights of the state agency and institution appropriations, are profiled below.

## Department of Health and Welfare

The General Fund appropriation for the Department of Health and Welfare increased from \$407.6 million in fiscal year 2005, to \$457.7 million in fiscal year 2006. This level of funding represents an increase of \$50.1 million, or 12.3 percent over the department's fiscal year 2005 original appropriation from the General Fund. Of the total, \$50.1 million of new dollars, \$43.1 million or 86 percent of the increase was for Medicaid.

The Legislature authorized 127 new positions for a total of 3,021 full-time equivalent positions for the entire department. This represents a growth factor of 4.4 percent. The new positions were added in the following programs:

- 15 new child protection workers were added in the Child Welfare Program;
- 2 grant management positions for the Independent Councils;
- 15 positions for clinical support for adults and children in Mental Health Services;

- 3 positions to manage the Access to Recovery grant in the Substance Abuse Services program;
- 1 position to support methamphetamine cleanup standards in the Physical Health Program;
- 50 positions for the eligibility and child support case workers in the Self-Reliance Programs;
- 27 positions in Indirect Support Services Program of which 20 were to convert existing contract employees to state employment, and 7 were to support criminal background checks for employees of assisted living facilities and nursing homes; and
- 14 positions for Medical Assistance Services to implement the Adult Access Card Program, support estate recovery efforts, provide additional health facility surveyors, and add capacity for program development and cost containment evaluations.

A subcommittee appointed by the co-chairmen of the Joint Finance-Appropriations Committee reviewed the budget structure and expenditure history of the department during the interim. As a result of the subcommittee's work, substantive changes were made during the appropriation process for fiscal year 2006.

- All budgets were reviewed and voted on by program rather than by division – there are now 19 budgeted programs in the department. Subsequently, there were nine appropriation bills representing functional areas rather than five representing organizational lines.
- All budgeted programs now have an associated full-time equivalent position cap.
- Carryover authority was granted throughout the department, but in the Child Welfare and Children's Mental Health Programs, carryover was limited to foster care, adoption assistance, and mental health treatment for children.
- Automatic authority to spend all new state or federal receipts that were in excess of the appropriation was limited to the Medical Assistance Services (Medicaid) and Indirect Support Services Programs. The majority of these receipts are from pharmaceutical rebates and excess payments to hospitals in Medicaid.

Finally, the Legislature faced a major challenge when the Governor's recommendation for projected inflationary increases in Medicaid was self-admittedly under funded by approximately \$17 million from the General Fund. An additional \$10 million was added to the final appropriation for Medicaid in an effort to minimize the potential shortfall in fiscal year 2006.

## **Public Schools**

For the current year, the Legislature provided public schools with a \$5 million cash infusion from the Budget Stabilization Fund to the Public Education Stabilization Fund (PESF), to cover costs associated with unexpected levels of enrollment growth. These funds have been added to the \$7.15 million in PESF, which should provide a fund balance sufficient to cover a shortfall currently estimated at approximately \$10 million. Of the new classrooms in Idaho, roughly one-third were in the Meridian School District, one-third in charter schools, and one-third in the remaining 113 school districts combined.

The General Fund appropriation for public schools increased by 2.3 percent for FY 2006, from \$964.7 million to \$987.1 million. The public schools appropriation bills included several changes to public schools funding statutes. These included the removal of requirements that the state fund and school districts participate in the Idaho Student Information Management System (ISIMS), since the J.A. & Kathryn Albertson Foundation has abandoned further development of ISIMS and will not be delivering a product for the state to maintain.

Amendments pertaining to charter schools include the requirement that new charter schools must be authorized by no later than January 1 of the prior school year (does not apply to new charters opening in Fall 2005), and a provision limiting the growth of individual charter schools to 20 new support units per year. These changes will make it possible for the state to plan and budget for charter school growth in a more orderly way.

Other amendments phased out the funding floor, which guaranteed the state's three or four wealthiest school districts at least 90 percent of their previous year's state funding, despite the fact that they would normally be entitled to receive none under equalization. These districts will now receive a 50 percent floor in FY 2006 and none in FY 2007.

In terms of the five divisions in the public schools budget, the following highlights summarize the key issues provided in the appropriation bills:

- **Administrators:** General Fund and total funds increase of 3.3 percent. Funded statutory increases for enrollment growth. The estimated experience/education index for administrators is fully funded for FY 2006.
- **Teachers:** General Fund increase of 1.9 percent, total funds increase of 2.1 percent. Funded statutory increases for enrollment growth and a 15 percent increase in the Early Retirement Program. The estimated experience/education index for teachers is fully funded for FY 2006.
- **Operations:** General Fund increase of 2.6 percent, total funds increase of 2.5 percent. Provided a 13.1 percent increase in the amount of money that can be used for technology, with all \$9.5 million now appropriated as ongoing funding. Within this category, there was an approximately 30 percent increase in the amount of money that schools could use to hire information technology staff. Districts were also given more flexibility in the use of technology equipment dollars, with districts having the option to use their share of these funds to pay for the cost of providing remedial instruction to students failing to achieve full ISAT proficiency. Increased the level of total discretionary funding by one percent, from \$24,450 to \$24,695 per classroom. Funded statutory increases for enrollment growth and pupil transportation costs, including the cost of bringing electronic instruction to virtual charter school students.
- **Children's Programs:** General Fund increase of 10.6 percent, total funds increase of 5 percent. Provided funding increases for Exceptional Contract/Tuition Equivalencies (15 percent) and Limited English Proficiency programs (4.3 percent). Doubled funding for Idaho Digital Learning Academy, to \$900,000, and made the provision of remedial instruction for children failing to achieve full ISAT proficiency the highest priority use for such funds. Provided additional flexibility to school districts in the use of cigarette tax moneys, with such funds being eligible to be used not only for Safe & Drug-Free Schools programs, but also for the costs of paying community resource workers.
- **Facilities:** Funded entirely by State Lottery proceeds. Provided funding for Bond Levy Equalization, in the amount of \$4,527,500, and general facilities assistance to local school districts. The amount of general facilities funds provided is \$8,922,500, the same amount as was provided in FY 2005.

## College and Universities

The FY 2006 appropriation for the four institutions in our College and University system reflects a 2.5 percent increase in General Funds and a 2.6 percent increase in total funds. The appropriation provides for increases in personnel benefits for health insurance and retirement, and provided four additional adjustments to adequately fund a "maintenance level" budget:

- **Statewide Cost Allocation Charges:** Includes \$48,000 for the controller, treasurer and risk management.
- **Enrollment Workload Adjustment:** This Enrollment Workload Adjustment (EWA) is not based on student enrollment, but is a calculation based on a three-year rolling average of the increase in credit hours, weighted by course level (lower division, upper division, masters, doctoral and law) and also weighted by discipline. The appropriation provides full funding (\$2,745,800) for the EWA. Keeping pace with growing enrollments was the highest priority in this year's budget process for higher education.
- **Occupancy Costs:** Includes \$825,200 for maintenance, janitorial and utility costs for three new facilities.

1. The Stephens Performing Arts Center at Idaho State University received \$378,900 for the general education portion of that facility, which is about 80 percent of the square footage. The grand concert hall and two smaller theatres were not included in the occupancy costs. The original legislation authorizing this privately funded facility clearly outlined the intent in the fiscal note, which states that funded occupancy costs would be expected when the facility was completed.
  2. The University of Idaho received \$205,800 for the space they use for general education in UI Water Center, which is about 29 percent of the square footage of that facility.
  3. The Lewis-Clark State College Activity Center received \$240,500 for occupancy costs. Original funding to construct this facility began in phases nine years ago, with the last and largest portion funded in the bonding package in 2003.
- **Endowment Fix:** The higher education appropriation also includes a one-time fund shift to cover the pooled endowment shortfall, which will not affect the overall funds available for higher education. This is a one-time "fix" required in the budget process which affected several agencies. In this case, general funds are reduced (and replaced with available earning in higher education's endowments) so that general funds can be used to cover endowment losses in other charitable institution budgets.
  - **Legislative Intent:** There is one new Legislative Intent section in the appropriation bill which directs the State Board of Education to develop a standardized reporting system to profile faculty workload at each institution. This is an effort simply to get a better understanding of how many credit hours are taught by faculty members and how many hours are spent in service or research.

## Department of Correction

The General Fund appropriation for the Department of Correction increased from \$110.5 million in fiscal year 2005 to \$118.6 million in fiscal year 2006. This level of funding represents an increase of \$8.1 million, or 7.3 percent, over the department's fiscal year 2005 original appropriation. Of that increase, about half was provided through ongoing supplemental appropriations to cover unexpected prison growth.

In addition, full-time equivalent positions increased by 6.7 percent, from 1,426 authorized by the Legislature in fiscal year 2005 to 1,522. This represents an increase of 96 positions. Of this number, 37 were authorized by the Governor during the current fiscal year to deal with the growing inmate population problem.

The changes in this appropriation from last year include \$1,059,000 for personnel benefits; \$18,100 for miscellaneous capital outlay; \$1,412,400 in nonstandard adjustments for changes in the medical contract with Prison Health Services, the statewide cost allocation plan and the privately operated state prison; and \$1,019,500 for annualizing approved supplemental appropriations. In addition, \$1,517,900 was shifted from the General Fund to the Endowment Income Fund as part of the Endowment Reallocation Plan. Also, \$138,000 was shifted from federal grant moneys to the General Fund for continued support of substance abuse treatment services at the South Idaho Correctional Institution in Boise and the North Idaho Correctional Institution at Cottonwood.

Other line item changes related to inmate population growth were also funded. They included \$513,400 to cover medical costs for another 365 inmates who are forecast to enter the system in 2006; \$699,600 and fourteen new positions to cover a 6.4 percent increase in the number of offenders that will be supervised in the community; \$41,100 and one new position to provide clerical support for those offenders participating under the Interstate Compact program; \$250,000 to establish Intermediate Sanction & Revocation programs at two facilities to help reduce prison overcrowding and increase offender accountability; \$93,700 and 1.6 new positions to help eliminate sexual assaults and rapes in detention centers, jails, and prisons, as federally mandated; \$677,200 and twelve new positions to staff a low-cost inmate housing structure at the Idaho Correctional Institution in Boise to house an additional 100 inmates; and \$1,940,700 and 30 new positions to provide for an additional 136 beds at the South Boise Women's Correctional Center.

Finally, intent language was included in the bill that granted carryover authority to the department for any unexpended and unencumbered balance of the General Fund to be used exclusively for the expansion of community-based mental health and substance abuse services.

## Change in Employee Compensation (CEC)

Idaho Code, §67-5309B(d), provides that the Division of Human Resources and the governor shall submit recommendations on proposed changes in salaries and benefits to the Legislature. "The failure of the legislature to accept, modify or reject the recommendations prior to adjournment sine die shall constitute approval of the governor's recommendations." The CEC Committee adjourned its February 15, 2005 meeting without passing a resolution to accept, modify or reject the Governor's recommendations. The Governor recommended funding for a one percent CEC for salary increases provided to state employees based upon performance, and funding for compensation to employees of public schools for distribution through discretionary allocations as individual districts may determine.

The Legislature approved H395, an omnibus CEC appropriation bill, which authorizes a one-time one percent CEC if the State Controller certifies to the Secretary of State that the ending balance in the General Fund at the end of fiscal year 2005 exceeds \$124,000,000. The fiscal impact of H395 is \$14,072,800 in general funds, \$2,089,400 in dedicated funds, and \$1,190,600 in federal funds for a total cost of \$17,352,800.

## Transportation Department

The Transportation Department's FY 2006 budget includes an enhancement of \$42,418,300 for Contract Construction and Right-of-Way Acquisition. This reflects higher estimated levels of federal funding based upon Congress' most recent extension of the Federal Surface Transportation Act. The enhancement also reflects forecasted increases in state dedicated funds. The Legislature also passed Senate Bill 1183 which authorizes the use of GARVEE [Grant Anticipation Revenue Vehicles] bonds to finance certain transportation projects across the state.

## Permanent Building Fund Projects

During FY 2006, the Permanent Building Fund once again will be used primarily to address building maintenance projects. Of the \$21,058,900 appropriated for Permanent Building Fund projects, \$17,548,500 was allocated for maintenance projects. Four other projects were authorized:

1. \$2.2 million was appropriated to renovate the facility for the Commission for the Blind and Visually Impaired. This project will renovate the current facility which is located in Boise and will address safety, mechanical and electrical problems. The renovation will result in a safer and more secure facility for clients and staff.
2. \$450,000 was appropriated for the planning and design for an addition to the State Museum. This will provide a 9,600 square foot addition to the State Museum and allow for the expansion of educational programs through exhibits, demonstrations, lectures, and audio-visual presentations.
3. \$745,000 was appropriated for low-cost inmate housing for the Department of Correction at the Idaho State Correctional Institution in Boise. This will provide funding for a stressed membrane structure providing a semi-permanent solution to inmate overcrowding at a fraction of the cost of conventional construction. This new structure will provide 100 new beds at the facility.
4. \$115,000 was appropriated for permanent fixtures at the new Idaho History Center. This will pay for fixed shelving and ladders at the new facility to provide storage for and access to such materials as historical documents, photographs, books, maps, oral histories, and research guides.

## Endowment Fix

In January, the Legislature learned that the Endowment Fund Investment Board had ceased payouts to the Agricultural College and Charitable Institutions, two of the seven pooled endowments. Two of the entities affected by the suspension, Veteran's Services and the School for the Deaf and the Blind, indicated they would

be able to absorb the loss of funds in FY 2005 amounting to \$281,490. This left a shortfall of \$1,506,300 that was not accounted for in the FY 2005 budget. The attorneys general assigned to the Investment board also recommended that the earnings reserves be put in a positive position as soon as possible, amounting to \$4.6 million. Furthermore, an additional impact of \$3,387,300 would be felt if no payments could be made to the Ag College and Charitable Institutions in FY 2006. The total impact would have been \$9,493,600. Fortunately, the attorneys concluded that had each of the pooled endowments been examined separately when calculating disbursement amounts for each fiscal year, the beneficiaries of each of the deficit funds would have not received endowment distributions in those years in the amount which created the deficit balances.

JFAC's approach was to increase General Fund support for those programs whose endowment distributions were stopped and decrease General Fund support and increase endowment spending authority for the other pooled endowments. JFAC approved S1162, adjusting the endowment fund appropriations in three parts:

1. The Normal School and University endowments took care of the Agricultural College and the Idaho State University portion of Charitable Institutions;
2. The Penitentiary Endowment took care of Juvenile Corrections; and
3. State Hospital South took care of State Hospital North.

The total impact was \$1,506,300 increased spending authority in the healthier endowments and a reduction in the same amount for the less healthy endowments.

For fiscal year 2006, S1194 took the same approach to keep the Agricultural College and Charitable Institutions whole without impacting the General Fund. Starting with known FY 2005 beginning balances and using estimated revenues, expenditures, and distributions for each of the seven pooled endowments, staff calculated the need for \$2.1 million to the Agricultural College and \$2.5 million to the Charitable Institutions for a total of \$4.6 million to bring those Earnings Reserves out of deficit. Also, since no distributions could be made from those two endowments in FY 2006, staff put a plan together to increase distributions from the healthy endowments with off-setting adjustments in General Fund support saving the General Fund \$3,387,300.

Total savings to the General Fund was \$9,493,600 over the two fiscal years. These are General Fund dollars that would have had to be injected into the budget that were instead offset by endowment earnings reserves. However, in FY 2007, the distributions must be readjusted and \$4.6 million must be reinstated to the General Fund appropriation base.

## **Statewide Water Funding Package**

JFAC appropriated \$34,150,000 for statewide water issues as follows:

- \$24,375,000 for purchasing water rights owned by the Bell Rapids Mutual Irrigation Company;
- \$4,125,000 for making loans to ground water districts to lease water;
- \$3 million for making loans to ground water districts to implement the Conservation Reserve Enhancement Program;
- \$360,000 to the Soil Conservation Commission for implementing the Conservation Reserve Enhancement Program;
- \$90,000 for a Hydrology Section Manager in the Department of Water Resources;
- \$1.2 million in spending authority for fees charged to water users to be used for monitoring and modeling;
- \$100,000 for the Rathdrum Aquifer Collaborative USGS Study;
- \$150,000 for Rathdrum Aquifer spring and well monitoring;

- \$450,000 for Palouse Basin Aquifer Projects; and
- \$300,000 for a study of water use and re-use on the Rathdrum Prairie.

Of the total, \$21.3 million was to be repaid by July 1, 2006 to the General Fund from leases of water rights to the Bureau of Reclamation. (H392)

## **Department of Fish and Game**

JFAC took a four pronged approach to the Fish and Game Budget. First, it set the FY 2006 budget based on no fee increase. S1176 authorized 525 full-time equivalent positions and \$72.2 million from all fund sources. Second, S1230 authorized funding of \$1.4 million for the 27<sup>th</sup> payroll. Third, JFAC approved S1237 authorizing an additional \$1.5 million from all fund sources. The total of these three components amounted to a budget of \$75.1 million, of which \$33.4 million was from licenses and fees. Finally, even though the Department of Fish and Game doesn't get any General Fund support, JFAC approved H395, a one percent one-time change in employee compensation contingent upon the ending balance in the General Fund of \$124,000,000. The fiscal impact of a one percent CEC to Fish and Game is \$382,400 with \$182,400 or 48% from license and other fees.

It should be noted that S1191 increased fishing and hunting license fees by an average of 10 percent including the vendor increase. There were some notable exceptions and footnotes. First, vendor fees were increased from \$1.50 to \$1.75 (17%) with the entire \$.25 going to the vendors. That means the department will retain \$.75 to maintain the system and the vendor will get \$1 beginning July 1, 2005. Second, there are exceptions to the average 10 percent. Controlled hunt application fees remained at \$4.50, controlled hunt permits remained at \$6.00, trapping licenses remained the same, senior licenses rose from \$3 to \$10 (333 percent increase), and non-resident hound-hunter permits actually fell by 21%. And finally, the fiscal note states the fee increase to generate an additional \$3.1 million to the department bringing estimated revenues for FY 2006 to \$31.5 million. That represents an 11% increase. Even after accounting for the variations in the fee increases, the department is assuming an increase of two percent to three percent in sales volume!